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Causes of business depression

Brooklyn, N.Y.

[1913?]

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Causes of Business Depression

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The Causes of Business Depression

By Henry George

THE CAUSES OF BUSINESS DEPRESSION

BY HENRY GEORGE

I am asked to state what, in my opinion, are the causes of business depressions. It should be possible to do more. For the method that has fixed with certainty the causes of natural phenomena once left to varying opinion or wild fancy ought to enable us to bring into the region of ascertained fact the causes of social phenomena so clearly marked and so entirely within observation.

To ascertain the cause of failure or abnormal action in that complex machine, the human body, the first effort of the surgeon is to locate the difficulty. So the first step toward determining the causes of business depression is to see what business depression really is.

By business depression we mean a lessening in rapidity and volume of the exchanges by which, in our highly specialized industrial system, commodities pass into the hands of consumers. This lessening of exchanges, which, from the side of the merchant or manufacturer, we call business

depression, is evidently not due to any scarcity of things that merchants or manufacturers have to exchange.

From that point of view there seems, indeed, a plethora of such things. Nor is it due to any lessening in the desire of consumers for them. On the contrary, seasons of business depression are seasons of bitter want on the part of large numbers, of want so intense and general that charity is called on to prevent actual starvation from need of things that manufacturers and merchants have to sell.

It may seem, on first view, as if this lessening of exchanges came from some impediment in the machinery of exchange. Since tariffs have for their object the checking of certain exchanges, there is a superficial plausibility in looking to them for the cause. While, as money is the common measure of value and a common medium of exchange in terms of which most exchanges are made, it is perhaps, even more plausible to look to monetary regulations. But however important any tariff question or any money question may be, neither has sufficient importance to account for the phenomena.

Protection carried to its furthest could

only shut us off from the advantages of exchanging what we produce for what other countries produce, free trade carried to its furthest could only give us with the rest of the world the freedom of exchange that we already enjoy between our several states, while money, important as it may be in its office of a measure and flux of exchanges, is still but a mere counter. Seasons of business depression come and go without change in tariffs and momentary regulations, and exist in different countries under widely varying tariffs and monetary systems. The real cause must lie deeper.

That it does lie deeper is directly evident. The lessening of exchanges by which commodities pass into the hands of consumers, is clearly due not so much to increased difficulty in transferring those commodities as to decreased ability to pay for them. Every business man sees that business depression comes from the lack of purchasing power on the part of would-be consumers, or as our colloquial phrase is, from their lack of money. But money is only an intermediate, performing in exchange the same office that poker chips do in a game.

In the last analysis it is a labor certificate. The great mass of consumers obtain money

by exchanging their labor or the proceeds of their labor for money, and with it purchasing commodities. Thus what they really pay for the commodities with is labor. It is not merely true in the sense he meant it, that, as Adam Smith says, "Labor was the first price, the original purchase money, that was paid for all things." It is the final price that is paid for all things.

The lessening of "effective demand," which is the proximate cause of business depression, means, therefore, a lessening of the ability to convert labor into exchangeable forms—means what we call scarcity of employment. These two phases are, in fact, but different names for different aspects of one thing. What from the side of the business man is "business depression" is, from the side of the workman, "scarcity of employment." The one always comes with the other, and passes away with the other.

They act on each other and again react, as when the merchant or manufacturer discharges his employes on account of business depression, and thus adds to the scarcity of employment. But in the primary casual relation scarcity of employment comes first. That is to say, scarcity of employment does

not come from business depression, as is sometimes assumed, but business depression comes from the scarcity of employment. For it is the effective demand for consumption that determines the extent and direction in which labor will be extended in producing commodities—not the supply of commodities that determines the demand.

What is employment? It is the expenditure of exertion in the production of commodities or satisfactions. It is, what, in a phrase having clearer connotations, we term work. For the term employment is, for economic use, somewhat confused by our habitual distinction between employers and employes. This distinction only arises from the division of labor, and disappears when we consider first principles. I employ a man to black my boots. He expends his labor to give me the satisfaction of polished boots.

What is the five cents I give him in return? It is a counter or chip through which he may obtain at will the expenditure of labor to that equivalent in any of various forms—food, shelter, newspapers, a street car ride and so on. In final analysis the transaction is the same as if I had employed him to black my boots and he

had employed me to render to him some of these other services, or if I had blacked my own boots and he had performed these other services for himself.

Even in a narrow view there are only three ways by which men live—by work, by beggary, and by theft; for the man who obtains work without giving work is, economically, only a beggar or a thief. But on a larger view these three come down to one, for beggars and thieves can only live on workers. It is human labor that supplies all the wants of human life—as truly now, in the complexities of modern civilization, as in the beginning, when the first man and first woman were the only human beings on the globe.

Now, employment or work is the expenditure of labor in the production of commodities of satisfactions. But on what? Manifestly on land, for land is to man the whole physical universe. Take any country as a whole or the world as a whole. On what and from what does its whole population live? Despite our millions and our complex civilization, our extension of exchanges, and our invention of machines, are we not all living as the first man must,

by the application of labor to land? Try a mental experiment.

Picture in imagination the farmer at the plow, the miner in the ore vain, the railroad train on its rushing way, the steamer crossing the ocean, the great factory with its whirling wheels and thousand operatives, builders erecting a house, linemen stringing a telegraph wire, a salesman selling goods, a book keeper casting up accounts, a bootblack polishing the boots of a customer. Make any such picture in imagination and then by mental exclusion withdraw from it, item by item, all that belongs to land. What will be left?

Land is the source of all employment, the natural element indispensible to all work. Land and labor—these are the two primary factors that by their union produce all wealth and bring about all material satisfactions. Given labor—that is to say, the ability to work and the willingness to work—and there never has and never can be any scarcity of employment as long as labor can obtain access to land. Were Adam and Eve bothered by "scarcity of employment?"

Did the first settlers in this country or the men who afterwards settled those parts

of the country where land was still easily had, know anything of it? That the monopoly of land—the exclusion of labor from land by the high price demanded for it—is the cause of scarcity of employment and business depression is as clear as the sun at noonday. Wherever you may be that scarcity of employment is felt—whether in city or village, or mining district or agricultural section—how far will you have to go to find land that labor is anxious to use (for land has no value until labor will pay a price for the privilege of using it), but from which labor is debarred by the high prices demanded by some non-user?

In the very heart of New York City, two minutes walk from Union Square will bring you to three vacant lots. For permission to use the smallest and least valuable of these a rental of $40,000 a year has been offered and refused. This is but an example of what may everywhere be seen, from the heart of the metropolis to the Cherokee Strip. Where labor is shut out from land it wastes. Desire may remain, but "effective demand" is gone. Is there any mystery in the cause of business depressions? Let the whole earth be treated as these lots are treated and who with its

teeming millions could find employment?

At the close of the last great depression I made "An examination of the cause of industrial depression" in a book better known by it main title, "Progress and Poverty," to which I would refer the reader who would see the genesis and the course of business depressions fully explained. But their cause is clear. Idle acres mean idle hands, and the idle hands means a lessening of purchasing power on the part of the great body of consumers that must bring depression to all business.

Every great period of land speculation that has taken place in our history has been followed by a period of business depression, and it must always be so. Socialists, populists, and charity mongers—the people who would apply little remedies for a great evil—all are "barking up the wrong tree." The Upas of our civilization is our treatment of land. It is that which is converting even the march of invention into a blight.

Charity and the giving of "charity work" may do a little to alleviate suffering, but they cannot cure business depression, for they merely transfer existing purchasing power. They do not increase the sum of

"effective demand." There is but one cure for recurring business depression. There is no other. That is the single tax—the abolition of all taxes on the employment and products of labor and the taking of economic or ground rent for the use of the community by taxes levied on the value of land, irrespective of improvements.

For that would make land speculation unprofitable, land monopoly impossible, and so open to the possessors of the power to labor the ability of converting it by exertion into wealth or purchasing power that the very idea of a man able to work and yet suffering from want of the things that work produces would seem as preposterous on earth as it must seem in heaven.

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